

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

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STATEMENT BY

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BEFORE THE

POST OFFICE AND CIVIL SERVICE COMMITTEE
U. S. HOUSE OF REPRESENTATIVES

ON

LEGISLATION ON SUPPLEMENTAL RETIREMENT FOR FEDERAL EMPLOYEES

OCTOBER 23, 1985

On behalf of the 700,000 Government employees we represent, the American Federation of Government Employees, AFL-CIO, appreciates this opportunity to testify before the House Post Office and Civil Service Committee on the new staff retirement plan for employees hired after December 31, 1983.

We want to recognize Chairman Bill Ford and Subcommittee Chairwoman Mary Rose Oakar for coming forward with a retirement plan which, in total, invests as much in new federal employees as was invested in current federal employees. Our members deeply appreciate elected Representatives who keep their word. Before passage of the Social Security Amendments, federal employees were assured that the intent of these Amendments was not to reduce the benefits of their retirement. We think the Ford/Oakar proposal meets that commitment and for that they have our gratitude and respect.

The issues surrounding the design of a new retirement plan are technical and complex. The Committee Members and their staffs are to be congratulated for their careful and deliberative approach and subsequent mastery of the technicalities of the issues. The basic approach taken in drafting the plan indicates an awareness of, and a sensitivity to, the major goals and issues of concern to our members and for this reason, AFGE supports the general concepts set forth in the bill, including:

- o The plan should be composed of three tiers; Social Security, a defined benefit component, and a Capital Accumulation Plan (CAP).
- o The "add-on" approach is the preferred method of integration.
- o The special job requirements of law enforcement officers, Firefighters, National Guard Technicians, and Air Traffic controllers require special retirement treatment.
- o Level contributions between old and new employees should be required.
- o Survivor and disability benefits should approximate or improve upon those under the existing Civil Service System.
- o The now existing Trust Fund arrangements should be integrated with the new plan.

COST

In previous testimony to this Committee and to the Senate, we stressed that if the new plan was to be fair and adequate and meet the retirement needs of federal employees and the personnel needs of the Federal Government, by necessity, the cost needed to be in the range of 25%. By recognizing this fundamental premise the proposed bill is able to meet the major requirements of a sound retirement system.

Even with an employer cost of 25% of payroll, the current Civil Service Retirement System (CSRS) cannot be duplicated because Social Security provides benefits which are not provided under the existing CSRS. In addition, the new plan is a diminution of the potential retirement benefits available to federal employees, because federal workers will never again be able to draw independently from both Social Security and Civil Service Retirement. Finally, given the fact that all parties agree that a CAP, based on voluntary employee contributions will be a component of the retirement system, employees generally will be contributing a larger portion of their pay for retirement purposes than current employees in order to maintain the same amount of employer benefits.

We and our prospective new members can live with all three of these facts, which are part of the price that we pay for this new plan.

ACCRUAL RATE

Virtually all employers recognize the value of a stable, experienced and dedicated work force. Congress clearly recognized this objective when it designed the Civil Service Retirement System by designing the plan to encourage persons to establish a career in the government service. The Federal Government with its constant political turmoil at the top of its

management has a special and crucial need for such a work force to keep the basic systems of government effectively operating in a consistent manner.

From this perspective we think the accrual rate should be "back-loaded" or seniority weighted. The current proposal of a flat percent per year of service does not meet that objective.

A two step system (for example, .85 for the first 10 years, 1.15 thereafter), or even a three step system (for example, .75 for the first 10 years, 1.15 for the next 10 years, and 1.35 thereafter), is much preferred for a retirement system which wants to and needs to promote and reward a career service. We strongly urge the Committee to adopt such a change in their accrual rate. Such a change can be constructed so as not to affect overall cost.

Any portability concerns should be allayed when remembering that Social Security and the CAP greatly increase portability in comparison to the existing system.

Although, the proposed accrual rate does not differ greatly from the Senate proposal. The high three base will provide for an increased initial benefit.

We look forward to discussions with the Committee Members and staff to explore alternatives to improving the accrual rate.

CONTRIBUTIONS

When we previously testified on the Federal Employees' Retirement Contribution Temporary Adjustment Act, we argued strenuously for the principle that pre- and post-1984 employees should make equal mandatory contributions. We still endorse this principle and therefore approve the provision requiring contributions.

It just makes common sense that employees working side-by-side should be making the same mandatory contributions.

We do object to using the flat percentage contribution (1.3% to .8%), as opposed to level contributions (7% minus Social Security). The current flat percentage proposal makes the employee funding of the system sharply regressive. Employees earning above the Social Security maximum would reap a windfall compared to their pre-84 counterparts. Level contributions would gain the plan about .2% of payroll and this could be used to eliminate the sick leave penalty or to improve the accrual rate (perhaps by moving the bend points in a seniority weighted accrual rate).

THE CAPITAL ACCUMULATION PLAN (CAP)

Although we have agreed to include a CAP in the plan, we have often stated that we don't think it should be so large so as to threaten the basic adequacy of the defined benefit portion of the plan.

In our view the proposed 50% match up to 6% of pay meets this requirement.

However, consideration should be given (in a constant cost format) to altering the formula so as to make the CAP more accessible to low and medium income employees. One possible formula would be 100% match to 1% of pay; 50% to 4% of pay; and 25% to 6% of pay.

Such a formula would become essential if the level contribution (7% - Social Security) option is not adopted.

COST-OF-LIVING-ADJUSTMENTS (COLA's)

With the onset of persistent inflation during the 60's, it became increasingly obvious that retirement programs which are solely defined without regard to inflation would fail in their goals of providing for retirement with security and dignity.

Inflation cruelly punishes those on fixed incomes who do not have the ability to engage in paid employment. As a result, in the 60's and 70's many retirement plans, including Social Security and CSRS, began making provisions for Cost-Of-Living-Adjustments.

It is also important to note that unlike any other employer, the Federal Government through its fiscal and monetary policies is directly responsible for inflation. Thus, the Federal Government has a unique responsibility to protect its elderly retirees from the consequences of its own action. It is clear the bill's sponsors have fully recognized this responsibility.

It is only fair that COLA provisions between government programs designed to ensure economic security are all treated equally. For this reason, we urge the Committee to specifically provide what has been referred to as a legislative link so that Civil Service annuitants receive the same COLA as provided to Social Security and other entitlement recipients.

THE RETIREMENT AGE

One of the major advances for working people in the history of this country was achieved by enactment of the Social Security program and the spread of employer pension plans. This allowed workers to retire as a reward of lifelong labor and to enjoy his

or her remaining life with economic security. To penalize the long-term career employees for wanting to enjoy that reward while their health is good and while they have some years to live is wrong. A penalty for early retirement is not fair in such cases. We perhaps could understand a penalty for early retirement if this benefit were very large and costly, but it is not. Experience shows that most employees work to age 61 even under the existing system.

We fully support the age and service provisions in the proposal as well as the provision for a Social Security Supplement.

COVERAGE

A premise upon which all parties in this debate can concur is that all employees who work for the Federal Government are entitled to a retirement plan. Therefore, the proposal should specifically include intermittent or seasonal employees, temporary employees, as well as, non-appropriated fund employees.

Perhaps, in the past, the exclusion of these groups could be overlooked insofar, as they could be seen as unlikely to vest and unlikely to benefit from inclusion. This is no longer the case because:

- o The Office of Personnel Management (OPM) has recently pushed agencies to substitute temporary and intermittent employees for permanent employees.
- o OPM has granted agencies new authority to make and extend temporary appointments up to 4 years and longer with OPM approval.
- o Because of tightening agency budgets, agencies are abusing these powers by substituting non-covered employees for permanent employees for the sole purpose of avoiding benefit costs. The Exchange Services in DoD have been prime violators of this practice.
- o Certain agencies such as the Forest Service and Social Security have undertaken employment practices where individuals work for recurring periods over many years in the same position. These employees are basically permanent, intermittent employees and should be able to participate in the retirement plan.

For the above reasons, the GAO has already recommended making all Federal employees eligible for the full-range of federal compensation, including Civil Service Retirement (see GAO, Part-Time and Other Federal Employment: Compensation and Personnel Management Reforms Needed, (FPCD-78-19, June 5, 1979)), and we urge the Committee to include this recommendation in this bill.

Another coverage and eligibility issue is the bill's proposal to retain a separated employee's eligibility to deferred retirement benefits even after that employee withdraws his/her contributions.

This is a break from current practice and seems not to meet any personnel function of a retirement plan.

Maintaining current practice in this regard could save .3% of payroll and be used to eliminate the sick leave penalty and/or improve the accrual rate in seniorityweighted system.

SPECIAL CATAGORIES

The provisions for Hazardous Duty Retirement in the proposal are carefully and superbly crafted. Our units affected by these provisions will be submitting a statement for the record stressing the crucial role retirement plans play for these exceptional jobs.

We do want to note that the Senate bill allows for an unreduced pension with 25 years of service at any age. We hope that committee will consider this as a possible revision to their proposal.

We also, urge the Committee to expand the Hazardous Duty provisions to cover positions whose primary responsibility is the protection of government employees and government property. This seems especially appropriate in these days of burgeoning terrorism against United States officials and United States property.

FUNDING

Our understanding is that the bill will provide dynamic normal cost financing which would eliminate future scare mongering around the unfunded liability issue. We have no basic problems with this approach.

However, it may not be wise to provide this financing out of agency appropriations. Forcing agencies to take this money out of salary and expense accounts would make budgetary planning much more difficult, because such planning would crucially depend upon the ratio of current to new employees, the rate of turnover, and the transfers into the new system. Furthermore, Appropriations Committee Members and staff would need to understand that although greater appropriations are required for a given number of employees, these greater appropriations in no way affect the deficit, but only relate to a bookkeeping innovation to account for retirement obligations as they are earned rather than financing them by direct transfer mechanisms from the general Treasury to pay benefits as they are due.

These concepts can befuddle even the intelligent, who are well intentioned. In the hands of those with less insight and understanding or less honorable intentions, they can create intellectual chaos. In all likelihood, these analytical niceties would fall by the wayside in these years of budget

crisis. Freezes on agency appropriations, where dynamic normal retirement costs were not explicitly recognized in the past, would translate unthinkingly into large personnel cuts once these costs are explicitly accounted for.

We recommend that the Committee avoid these problems by using a direct transfer mechanism between the Treasury and the Civil Service Retirement Fund.

DISABILITY AND SURVIVORS BENEFITS

We want to withhold comments on the specifics in this area until we see the language of the bill because of the technicalities involved (for example appeal rights for disability recipients).

However, the outline of the disability and survivor issues indicate that the broad design of these provisions will meet with our approval.

We especially applaud the continuation of the children's benefit.

OTHER ISSUES

- o We urge the Committee to provide immediate eligibility to Civilian Technicians in the National Guard, who lose their civilian jobs due to being selected out of their military positions.
- o District of Columbia employees will be not covered by this plan and new D.C. employees will be severed from the Civil Service Retirement System effective January 1, 1987. In order to provide for an orderly transition and to allow D.C. employees (and their representatives) and the D.C. Government time to adequately prepare and negotiate over this major change, we urge that this date be moved to January 1, 1989.
- o A major step forward in the debate over Civil Service Retirement has been accomplished in the effort to design this system; namely, everyone is singing for the same song book -- the model developed by the Congressional Research Service with assistance from the General Account Office, Congressional Budget Office, and outside experts. For this reason, we urge consideration of using this model in calculating the dynamic normal cost of the system. Furthermore, we

strongly urge that the legislation require this cost be the operative cost for all government decisions which include retirement as a factor (such as A-76 Contracting-Out studies).

- o Care must be taken in this new plan not to unthinkingly disrupt the unique requirements and personnel system in the Foreign Service. We would hope that this Committee would carefully deliberate before any such precedents were introduced.

We would like to touch on one of the most complex areas in this whole issue -- the management and investment of the funds in the CAP. Because of this complexity, we are still investigating the range of options.

Our investigations will be based on several principles:

- o First, these monies are the employees' money and must be invested in their best interest.
- o Second, because of the size of this fund, the public interest must be represented and guarded.
- o Third, once again, because of the fund's size, the danger of disrupting markets, inadvertently or for political purposes, must be guarded against.

- o Fourth, the use of this fund must be socially responsible and such responsibility should be a feature of its investment strategy.
- o Finally, ERISA standards should serve as guidelines to the administration of the fund in order to protect the integrity of the investments.

We will continue our research and discussions along these lines, and look forward to working with the Committee soon on these challenging and provocative issues. We wish to add that we agree with the Committee that a good part of these funds should be invested in the private sector. Employees deserve the greatest available return for their dollar.

We value the opportunity the Committee and staff have afforded us to make our points known. We hope that this relationship will continue after the bill is introduced and AFGE has reviewed the specific language. It will then be possible for us to consider each and every provision and we hope the Committee will weigh our comments carefully before making final decisions with respect to this new federal retirement program.

Thank you.